



North Carolina
Department of Health and Human Services
Division of Medical Assistance
Financial Operations

1985 Umstead Drive – 2509 Mail Service Center - Raleigh, N.C. 27699-2509
Courier Number 56-20-06

Michael F. Easley, Governor
Carmen Hooker Buell, Secretary

Nina M. Yeager, Director

November 15, 2001

MEMORANDUM

TO: Nursing Facility Administrator

FROM: Allen Gambill
Assistant Direct – Financial Operation
Division of Medical Assistance

RE: Cost Reporting of General Liability Insurance

Recently you received a letter from Division of Medical Assistance regarding Cost Reporting of General Liability Insurance. Since then we have received several questions relating to that memo. The purpose of this letter is to explain in greater detail how to identify and allocate liability insurance premiums.

Your liability insurance coverage can be paid in three separate ways:

- (1) Premiums for General and Professional Liability coverage
- (2) Premiums for Umbrella coverage
- (3) Deductibles (paid out of pocket by the provider) relating to the policies in (1) and (2) above.

General liability insurance covers losses due to injuries sustained by people other than patients. For example, if a visitor sustains injuries from a fall in the facility and the visitor can prove the facility's negligence cause the fall (wet floor). Professional liability insurance provides protection from negligence by the facility's personnel such as RNs, LPNs, and CNAs. For example, a patient is injured from receiving a wrong medication from the facility's nurse.

Under no circumstances should the cost identified in [1] – [3] below include any insurance premiums paid to cover a loss on any real or personal property. In the event that a provider receives a refund or credit related to liability insurance, they should be credited against the cost of liability insurance in the year received.

- [1] **General and Professional Liability**: These premiums should be allocated to each cost center (direct and indirect) based on salaries and reclassified to the employee benefit line of each cost center of the cost report, (including any contract nursing or rehab therapy personnel).

- [2] **Umbrella Policy:** The Umbrella policy covers not only General and Professional liability but also automobiles; therefore, an allocation between these two cost centers must be completed first. Allocate the total premium between General/Professional liability and Auto liability based on the policy coverage amounts for each area.

Example:

Total Umbrella Premium –	\$50,000
Total Professional Liability Coverage –	\$4,000,000 (80%)
Total Auto Liability Coverage –	\$1,000,000 (20%)
Total Coverage –	\$5,000,000 (100%)

The premium of \$50,000 is allocated 80% (\$40,000) to General/Professional Liability [see (1) above] and 20% (\$10,000) to the indirect cost center titled “Insurance/Fixed Assets.” (See overall example below.)

- (3) **Deductibles:**

Deductibles are incurred when a policy requires the provider to pay up to a predetermined amount before the insurance company is obligated to pay on the claim.

For example, if the total Professional Liability claim is \$50,000 and the provider has a \$10,000 deductible, then the \$10,000 can be included as a General/Professional Liability expense as explained at (1) above. This cost is only allowable if it is paid during the cost-reporting year. Accrual of these costs is not an allowable cost.

OVERALL EXAMPLE:

Facts:	• General & Professional Liability Premium –	\$100,000
	• Umbrella Premium –	\$ 50,000
	% Umbrella to General/Professional Liability –	80%
	% Umbrella to Autos –	20%
	• Professional Liability Deductible Paid During Year –	\$ 10,000

<u>Allocation of Premiums</u>		
	<u>G/P Liability</u>	<u>Insurance/Fixed Assets</u>
General & Professional Liability	\$100,000	– 0 –
Umbrella	40,000	\$10,000
Deductibles	10,000	
Total	<u>\$150,000</u>	<u>\$10,000</u>

❶ \$150,000 will be allocated to each cost center (direct and indirect) based on salaries and reclassified to the “Employee Benefit” line of each cost center of the cost report.

❷ \$10,000 will remain in the “Insurance/Fixed Asset” line of the cost report under the “Property and Ownership and Use” cost center.

Should you have any questions, please call Jim Panton at (919) 857-4150.

AG:JP:cb

cc: Harold Wiggins



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Michael F. Easley, Governor
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Nina M. Yeager, Director

October 8, 2001

MEMORANDUM

TO: Nursing Facility Administrator

FROM: Allen Gambill
Assistant Director – Financial Operations
Division of Medical Assistance

RE: Cost Reporting of General Liability Insurance

The Division of Medical Assistance has carefully reconsidered the proper cost reporting of general liability insurance. Based on this review, it is determined that general liability insurance should be allocated to employee benefits based on payroll. Therefore, general liability insurance should be included in fringe benefits in the applicable cost centers on the Cost Report.

Should you have any questions, please call Jim Panton at (919)857-4150.

AG:JP:jc

cc: Harold Wiggins
Jim Panton